

United States Senate

WASHINGTON, DC 20510

1

January 19, 2007

The Honorable Henry M. Paulson, Jr.
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Mark W. Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Secretary Paulson and Commissioner Everson:

The Internal Revenue Service recently proposed a regulation that we believe would inappropriately require farmers who receive Conservation Reserve Program (CRP) rental payments to treat them as income that is subject to Self-Employment Contributions Act (SECA) taxes. This proposed change, if finalized, will impose an unintended and unfair financial burden on many farmers and other landowners. We strongly urge you to reconsider the approach in the proposed rule and take positive steps to clarify that CRP payments are not subject to such taxes.

Over the years, many farmers have been paid annual rental payments by the U.S. Department of Agriculture for volunteering to place environmentally-sensitive lands out of production for an extended period under the Conservation Reserve Program. During most of this period, the IRS has waged an aggressive campaign to require farmers to pay SECA taxes on those payments.

In our judgment, the IRS's tax treatment of CRP payments is not what Congress intended, nor is it supportable in law. The U.S. Tax Court reviewed this matter and ruled that the IRS's characterization of CRP rental payments as income from self-employment is dead wrong. Unfortunately, the IRS challenged the Tax Court decision and the Tax Court was later reversed by a federal appellate court.

Because of the controversy surrounding this tax policy matter, the IRS agreed to revisit this issue. In its new proposed ruling, however, the IRS decided not only to ignore the Tax Court's previous ruling but also to make this problem worse by now forcing even retired farmers to pay SECA taxes on their CRP rental payments. We think CRP landowners will be outraged by this proposed ruling and justifiably so.


Page Two
January 19, 2007


If the IRS does not withdraw its proposed rule and clarify that the proper tax treatment of CRP payments as rental income that is not subject to self-employment taxes, then we will work to pass legislation to do so at the first available opportunity in the 110th Congress. Quite simply, we will not allow the IRS's misguided effort to treat CRP rental payments as net earnings from self-employment to stand.

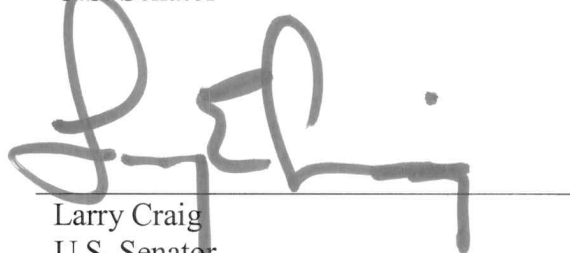
Thank you for your attention to this matter. We look forward to hearing back from you soon.

Sincerely,



Byron Dorgan
U.S. Senator



Sam Brownback
U.S. Senator


Max Baucus
U.S. Senator


Larry Craig
U.S. Senator



Kent Conrad
U.S. Senator


Christopher Bond
U.S. Senator



Richard Durbin
U.S. Senator

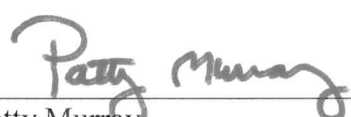

Pat Roberts
U.S. Senator


Page Three
January 19, 2007


Tom Harkin
U.S. Senator

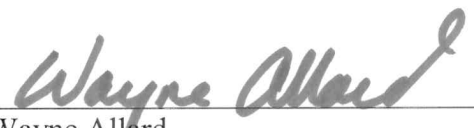

Mary Landrieu
U.S. Senator


Ken Salazar
U.S. Senator

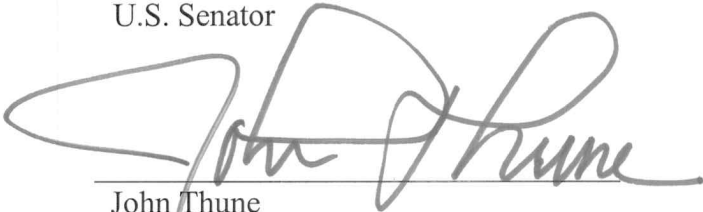

Patty Murray
U.S. Senator



Benjamin Nelson
U.S. Senator

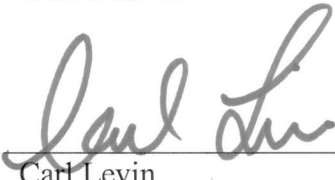

Amy Klobuchar
U.S. Senator


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